



**SOUTH DAKOTA DEPARTMENT OF LABOR**  
**PAMELA S. ROBERTS, SECRETARY**

October 16, 2007

The Honorable Governor M. Michael Rounds  
State of South Dakota  
500 East Capitol  
Pierre SD 57501

The Honorable Senator Bob Gray  
President Pro Tempore of the Senate  
500 East Capitol  
Pierre SD 57501

The Honorable Representative Tom Deadrick  
House Speaker of the House of Representatives  
500 East Capitol  
Pierre, SD 57501

Re: 2007 Report of the Unemployment Insurance Advisory Council

Gentlemen:

Enclosed please find the 2007 Report of the Unemployment Insurance Advisory Council required by SDCL § 61-2-7.1. A copy is posted at [sdjobs.org](http://sdjobs.org), as well as minutes, agendas and other information on the Unemployment Insurance Advisory Council.

Sincerely,

Pamela S. Roberts  
Secretary

Cc: Unemployment Insurance Advisory Council  
Legislators

South Dakota Department of Labor  
Unemployment Insurance Advisory Council  
2007 Annual Report

This document serves as the report of meetings, discussions, and recommendations of the Unemployment Insurance Advisory Council, pursuant to SDCL 61-2-7.1. Council members appointed by Governor Rounds include Secretary of Labor Pam Roberts (chair), Carol Hinderaker, Robert Anderson, David Owen, Paul Aylward, Jason Dilges, Bob Riter, Jr., Homer Harding, and Mark Merchen. The report is available to any interested person or groups and can be found on the Department of Labor website at [www.sdjobs.org](http://www.sdjobs.org).

The 2007 legislature passed one Bill which will affect unemployment insurance. SB 147 revised the definition of wages to exclude employer payments to Simple IRA (408(p)) retirement plans. Legislation in 2006 had made a similar change with respect to employer contributions to 401K and similar pension plans. This makes South Dakota consistent with federal law in this area. The prior situation required that employers calculate one wage figure to use on state unemployment reports. This figure included their payments to 408(p) and 401K plans for employees. The employer then had to re-calculate that number by removing the pension contribution payments before they filed federal unemployment tax reports. The reason is state law included the pension plan payments and federal law excluded them. The prior situation created administrative costs for employers because of the double calculation. Some employers reported their payroll software could not make this adjustment; requiring extensive hand-calculation of the required data. SB 147 corrected an omission in the 2006 legislation, which did not include 408(p) plans because no one had identified them as creating a problem. After the changes became effective, accountants that work primarily with smaller employers who use 408(p) plans requested they receive the same treatment.

Council action for 2007 began with a meeting on June 6, 2007. A public hearing was held. There were no public comments. The Council received a summary of 2007 legislation and information on the financial impact of 2006 trust fund solvency legislation. The 2006 changes increased the taxable wage base for the first time since 1983, raised the contribution rates for negative account employers from 7 percent to 8.5 percent, established a new interest charge penalty for employers with consistently negative accounts and lowered the surtax trigger level from \$11 million to \$2 million for a three-year period ending June 30, 2009. The wage base and contribution rate increases were effective in 2007 so employers had a one year notice of the changes. Complete details on the changes can be found in the 2006 report, available on-line at [www.sdjobs.org](http://www.sdjobs.org).

The Council also received a presentation on the May 2007 flood disaster and the work of Department of Labor staff and staff from other state and federal agencies at five disaster centers. In addition to benefits from FEMA and the SBA, federal unemployment payments totaling \$289,578 have been paid to people who were unemployed as a result of the disaster and who were not eligible for regular state unemployment benefits.

At the September 10, 2007 meeting the Council received trust fund financial projections (Attachment A) based on the most recent benefit payment and revenue information. The projections are consistent with earlier estimates that the trust fund decline would stop after 2006 and the fund would return to a solvent position beginning in 2007.

An analysis of the twenty major industries showed similar results. First quarter 2007 employer contributions were higher in all industries when compared to first quarter 2006. The sum of the account balances on June 30<sup>th</sup> was higher in 2007 compared to 2006 for sixteen industries and lower for only four industries. A review of negative account employers from 2004 through June 30, 2007 did not reveal any clear trends. The total negative balance increased in some cases and decreased in others. This may be due to timing of the analysis as many groups had little change or actual decreases from 2005 to 2006, but higher negative balances through June 30, 2007. A similar analysis based on complete 2007 data should produce a better picture of the results of the 2006 legislation.

At the request of the Council, Deb Mortenson, representing the Associated General Contractors (AGC), was asked to share input received by their membership regarding the 2006 changes implemented by the UI system. Discussion was held. No AGC members had submitted complaints or suggestions to either AGC or DOL.

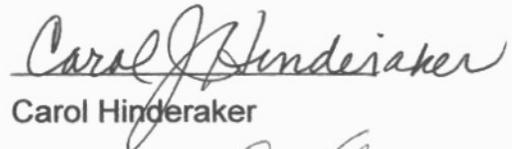
The UI Advisory Council discussed the need for continued communication to employers regarding upcoming changes in the wage base and contribution rates. It was determined that the Department of Labor will directly communicate any updates concerning the unemployment insurance system to South Dakota employers through news releases, articles, print materials, newsletters, websites, and special event promotional opportunities.

There was no public testimony recommending changes in the unemployment insurance system and the Council had no recommendations for change to the Governor or Legislature. Respectfully submitted on September 10, 2007, by the Unemployment Insurance Advisory Council.

Members:



Pamela S. Roberts



Carol Hinderaker



Robert Anderson



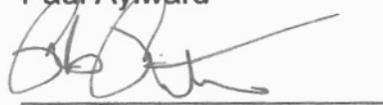
David Owen



Paul Aylward



Jason Dilges



Bob Riter, Jr.



G. Homer Harding



Mark Merchen

Attachment A

### Unemployment Insurance Projections

